

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED**

DECEMBER 31, 2015 AND 2014

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

MANAGEMENT DISCUSSION AND ANALYSIS (Required Supplemental Information)..... 3

FINANCIAL STATEMENTS:

 Statements of Net Position 10

 Statements of Revenues, Expenses, and Changes in Net Position 11

 Statements of Cash Flows 12

 Notes to Financial Statements 14

REQUIRED SUPPLEMENTARY INFORMATION:

 Schedule of the Employer's Proportionate Share of the Net Pension Liability
 and Related Ratios..... 28

 Schedule of Contributions..... 29

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 7
Johnson County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 7, Johnson County, Kansas (the District), as of and for the years ended December 31, 2015 and 2014, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

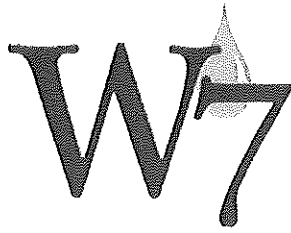
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2015 and 2014, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Employer's Proportionate Share of the Net Pension Liability and Related Ratios, and the Schedule of Contributions on pages 3 through 9 and 28 through 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any other assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Olathe, Kansas
June 28, 2016



WATER DISTRICT No. 7

JOHNSON COUNTY, KANSAS

534 W. Main • P.O. Box 7 • Gardner, KS 66030-0007
O: 913.856.7375 • F: 913.856.7173 • www.water7.com

June 28, 2016

<p>MANAGEMENT DISCUSSION & ANALYSIS REPORT JANUARY 1, 2015 – DECEMBER 31, 2015</p>
--

In accordance with guidelines as prescribed in the Governmental Accounting Standards Board (GASB), Statement No. 34, Rural Water District No. 7, Johnson County, Kansas, is submitting this Management Discussion & Analysis Report (MD&A), along with a copy of the audited financial statements performed by the accounting firm Troutt, Beeman & Co., P.C., of Olathe, Kansas. The MD&A report is provided to give the reader a general overview of the activities of the District in its fiscal year 2014, while the audited financial statements provide the general overview of the District's financial position.

General Information

The District was formed and incorporated in 1968. The District secured financing from Farmer's Home Administration (FmHA) in 1974 and began construction of the water system. Construction was completed in 1975 with service to nearly 600 customers realized. The District serves established territories in Johnson, Miami, & Douglas Counties in Kansas.

The District is governed by a nine (9) member Board of Directors (BOD) that oversees the total operations and management of the District. The BOD has regularly scheduled monthly meetings to address any concerns, issues, or actions that are needed for the management and operation of the District. The BOD employs a manager who is responsible for the water system's daily activities, operations, and maintenance. The manager is also responsible for the staffing of the District. The District has a staff of five individuals who perform the duties necessary for its daily operations.

The District has "Territorial Agreements" with each of its municipal city neighbors, including: Olathe, Gardner, Spring Hill, and Edgerton. These agreements stipulate the service area for each entity as is defined by a boundary line. This allows each entity to plan its existing and future service areas, as well as its capital improvements within these defined areas. Ideally, this will promote cooperation between the entities and enable the services to these areas to be provided at a reasonable cost without question of which entity will be serving the area.

Water Supply

When first formed, the District had a single source of water supply; the City of Olathe. Since that time it has developed other supply sources, as well as emergency interconnections, that are used to provide the overall wholesale supply and emergency service for the District. The two significant supply sources are further summarized:

- The City of Olathe provides approximately 30% of the District's wholesale water supply needs. As mentioned, this source is the original wholesale supply source for the District. In December 2011, the District signed a 20-year Water Purchase Contract with the City of Olathe. This source should meet or exceed, the District's supply source needs for this period of time.
- The Hillsdale Reservoir source was established in 1987. The Hillsdale supply is purchased through a raw water assuredness contract with the Kansas Water Office (KWO). The District belongs to a nine-member Interlocal group called the "Hillsdale Area Water Cooperative" (aka HAWC). This consortium, with the assistance of the KWO, combined all water marketing contracts at Hillsdale, along with the needs of its members, into one collective amount and purchased the entire allocation (less one fixed contract KWO had with MI2) of the Kansas Water Marketing Program allocation at Hillsdale Reservoir. The term of this contract between HAWC and the KWO is to the year 2053.

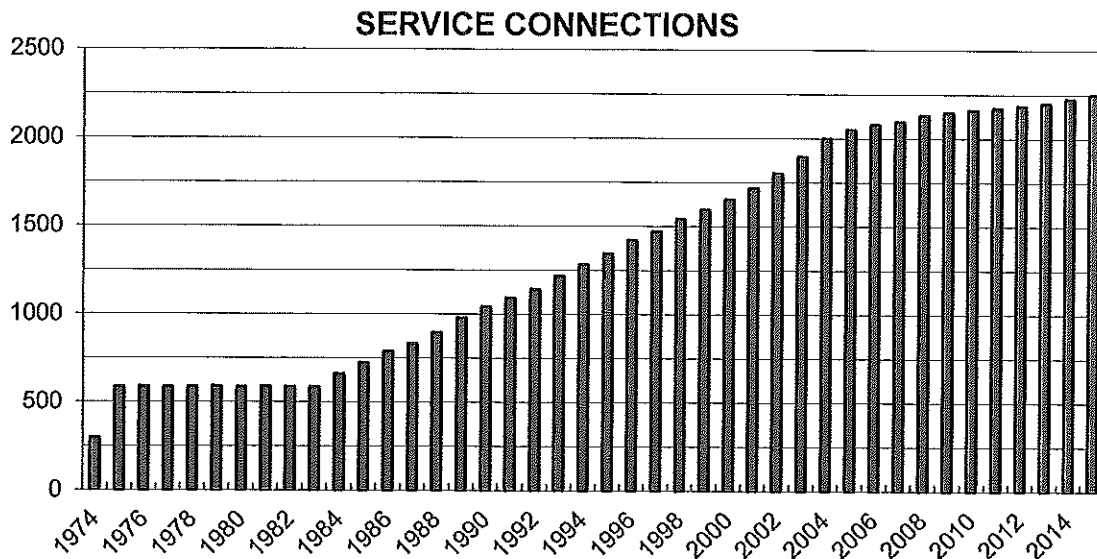
Regarding this same source, the District then contracts with Rural Water District No. 2, Miami County, to withdraw, treat, and deliver this supply into the District's distribution system using their water treatment plant facility. As with the Olathe supply, Miami #2 is obligated to meet all federal and state requirements for a public drinking water supply. This source typically provides 70% of the total supply to the District. The contract term with Miami #2 is perpetual and remains in effect for as long as the water treatment plant is in operation.

- Two other public water supply systems are contracted to supply wholesale water to the District. These supplies provide less than 1% of the total supply to the District.
- Emergency Interconnections have been established with municipalities and other rural water districts. These interconnections allow for the flow of a water supply during emergency situations. Interconnections with the City of Gardner, City of Edgerton, City of Spring Hill, and Johnson County Consolidated Rural Water District No. 6 are currently in place.

General Statistics for 2015:

Benefit Units (Service Connections)

The District's boundaries are located in an area within the State of Kansas that was experiencing an accelerated growth pattern prior to 2005. The 2008 national recession also impacted the previous growth patterns of the District. In fiscal year 2015, the District sold 24 benefit units (service connections) for a year-ending total of 2,250 active benefit units. This represents the general trend in the District for the past 5 years of an approximate 1% growth rate. (See Chart below)



It is worth noting though, that one of the state's largest economic development projects has been constructed within the service area of the District. BNSF Railways completed its Intermodal Facility (IMF) and began operations in October 2013. The area surrounding the IMF is being developed into the Logistics Park Kansas City (LPKC). This will provide warehousing and distribution centers within close proximity of the IMF. Currently there are five warehouses that are either constructed or being constructed. In the general area of the LPKC, domestic water supply needs will gradually increase as construction of additional warehouses continues. Subsequent development is also anticipated in the areas surrounding the IMF & LPKC. The District is working with the City of Edgerton and developers in determining the water system needs in the area and enhancing its system to accommodate for the expected growth.

Water Purchases and Water Loss

The District experienced a less than average year in 2015, in regards to the amount of water purchases it made from its wholesale supply's. Local weather patterns generally impact this the greatest. The Spring and early Summer of 2015 was typical of the previous 2 years (2013 & 2014). Wet weather patterns reduced the outside watering of many customers, which impacted overall revenues. Regardless, the District's piping system, infrastructure, and contracted wholesale supplies are prepared to meet an exceptional demand if the weather patterns turn into a higher demand.

Regarding Water Purchases, Sold & Loss: Public water supply systems typically record the amount of gallons purchased, gallons sold, and subsequent gallons of water loss to determine the performance of the piping system. High water loss percentages indicate potential operational issues with pipes, valves, or leaks in a water system. Total Water loss is isolated into two categories (Accounted and Unaccounted). Accounted water loss is water used for flushing and normal operational duties. Unaccounted water loss is water most likely attributed to leaks in the water system itself that cannot be specifically identified. Achieving an unaccounted water loss of 15% or less is commendable. In 2015, the District's unaccounted water loss was 7.7%.

Financial Statistics for 2015:

Statement of Net Assets Summary (Table 1) – This table shows a summary of the Total Assets, Total Liabilities, and Net Assets of the District for FY 2015 and FY 2014. Total Assets increased \$682,000 in 2015, with the majority of this increase included within Capital Assets of over \$640,000. The District also reduced its Long Term Debt over \$103,000 for the year. Overall, this table indicates another strong performance for the District's expansion of its Assets in 2015.

TABLE 1
Statement of Net Assets Summary

	2015	2014	Difference	%
Current Assets	\$ 4,433,639	\$ 4,390,672	\$ 42,967	1%
Capital Assets	\$12,598,097	\$11,957,499	\$ 640,598	5%
Restricted Assets	\$ 411,835	\$ 386,996	\$ 24,839	6%
Other Assets	\$ 455,687	\$ 482,123	\$ (26,436)	-6%
Deferred Outflows	\$ 779	\$ -	\$ 779	100%
Total Assets & Deferred Outflows	\$17,900,037	\$17,217,290	\$ 681,968	4%
Current Liabilities	\$ 525,299	\$ 491,738	\$ 33,561	6%
Net Pension Liability	\$ 244,397	\$ -	\$ 244,397	100%
Long Term Debt	\$ 1,813,220	\$ 1,710,000	\$ 103,220	6%
Deferred Outflow	\$ 58,482	\$ -	\$ 58,482	100%
Net Assets	\$15,258,639	\$15,015,552	\$ 243,087	3%
Total Liabilities, Net Assets, & Deferred Inflows	\$17,900,037	\$17,217,290	\$ 681,968	3%

Statement of Revenues, Expenses, & Changes in Net Assets Summary (Table 2) – Operating Revenues dropped 4% in 2015 due to wet weather patterns in the Spring and early Summer. This was typical for all surrounding public water supply systems. Operating Expenses increased 6% in 2015. The District's wholesale supplies passed along rate increases to the District in 2015. These increases were more noticeable given the reduced revenues from the wet weather patterns for the year. "Net Income before Contributions" decreased significantly, as compared to 2014; however, 2014 had a one-time event that skewed the year. This, plus the impact of the wet seasons on Revenues, reduced this line item. "Capital Contributions" remained steady for 2015. Purchases of large services for warehouses within the LPKC are impacting these contributions. It is expected that the IMF & LPKC will continue to impact the future growth of the District.

TABLE 2
Statement of Revenues, Expenses & Changes in Net Assets Summary

	2015	2014	Difference	%
Operating Revenues	\$ 1,614,371	\$ 1,692,597	\$ (60,466)	-4%
Operating Expenses	\$ 1,755,759	\$ 1,648,612	\$ 89,907	6%
Net Operating Income	\$ (106,388)	\$ 43,985	\$ (150,373)	-342%
Net Income before Contributions	\$ (89,105)	\$ 201,686	\$ (256,440)	-127%
Capital Contributions	\$ 568,410	\$ 664,696	\$ (96,286)	-14%
Net Income	\$ 479,305	\$ 866,382	\$ (352,726)	-41%
Net Assets	\$15,258,639	\$15,015,552	\$ 513,656	3%

Regarding other financial matters, it is noted that the BOD annually approves a budget for the ensuing year. Financial statements are prepared monthly for the BOD's review. Also included for their review are monthly comparisons of the previous year and "year-to-date" totals.

Debt Obligations

The District had three active debt obligations in 2015; however, one of these debts was retired in October 2015. The remaining debts are from a revenue bond issue from 2012 which allowed for system improvements and the third debt for the upsizing of a composite elevated water storage tank near the LPKC Development.

All debt obligations were met by the District for the year, whereas approximately \$303,000 of debt was retired. As of December 31, 2015, the principal amount of these two outstanding loans (combined) is approximately \$2.1M.

Rates & Fees – 2015

The BOD annually reviews the rate structure of the District; however, in 2014 a rate study was commissioned to be performed by KDHE (Ranson Financial Consulting). The results of that rate study were presented to the BOD in November 2014 whereas a 3% rate increase to the patrons was to be made effective January 1, 2015. Depending on the size of service, the current water rate schedule is summarized in Table 3:

TABLE 3
Water Rate Schedule

	5/8" x 3/4" Meter	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter
Monthly Minimum Charge	\$18.03	\$18.03	\$18.03	\$31.27	\$50.67
Per 100 gallon rate	\$0.557	\$0.557	\$0.557	\$0.557	\$0.557

The BOD also generates capital for water system improvements by making available the purchase of benefit units or right(s) to water service connections, to those desiring a public water supply. This fee is primarily used for funding capital improvements within the District. The BOD annually reviews these fees during its budget review. As a result of these annual reviews, the BOD adjusted

the benefit fee schedule (effective Jan. 1, 2016) for certain sized services. The fees assigned to these meters are commensurate with other charges levied by neighboring water systems and account for system demands that the meters could utilize.

Operations & Activities in 2015

The BOD discussed and approved certain system enhancements in 2015. These include the following:

- The upsizing of the LPKC elevated storage tank from 0.5 MG to 1.0 MG. The District took advantage of the incremental cost to upsize a composited elevated storage tank in the general area of the IMF and LPKC to add additional capacity and service to the tank that is being constructed by the LPKC Development team. In doing this, the District entered into an agreement with the LPKC Development team, as well as the City of Edgerton, that would allow the upsizing at the District's cost. It is estimated that the cost for this upsizing will be approximately \$600,000. The BOD subsequently approved a loan, from a private lending institution, in the amount of \$600,000 for the upsizing of the LPKC Tank. The loan rate is 2.65%. The substantial completion of the tank was completed in February 2016 and put into operation.
- Approved the installation of water mains along Montrose Street and 191st Street, in the LPKC Development in Edgerton, Kansas.
- Approved the feasibility report for the extension of service to areas that the District attached to its service area in 2013. This area, consisting of approximately 3,000 acres, is located adjacent to the Johnson County/Douglas County border. The report outlined service options, cost estimates, and the overall financial feasibility in servicing the area. The report was completed in October 2015.
- Finalized the "Customer Exchange Agreement" with the City of Gardner which allowed customers to be exchanged between entities.
- The District continued funding the Meter Replacement Program and the GPS/GIS Mapping Program.

Conclusion

As highlighted in this report, the District continues to meet and exceed the challenges of a public water supply system in Kansas. It is anticipated that a rate increase will be once again considered by the BOD in FY 2016, due to increasing wholesale water supply costs and operational expenses. Rate increases reinforce the BOD's position that maintaining a reasonable rate structure, meeting the debt obligations, and providing adequate reserves, is a priority and responsible management of the District. It is management's opinion that the financial outlook of the District is stable in these economic times. This is encouraging, despite slow new customer growth and current economic conditions. Customer growth is still expected to occur in the areas the District serves, especially in those areas adjacent to the BNSF IMF and the LPKC. Growth could occur in the area recently attached to the District. This customer base has never had access to a public water supply. The introduction of this access will likely promote interest by property owners.

The District continues to meet and exceed the Debt Service Coverage Ratio (DSCR) requirements of its loan covenants. Rates and fees are commensurate with its neighboring entities. The District's Water Supply Contracts will allow the probability of a quality long-term water source. Operations of the District consistently reveal an aggressive approach to steady improvements and replacement of its facilities. The District has Service Area Agreements with each of its municipal neighbors. This allows a systematic, well planned, growth and expansion of services into defined areas, without risking abandonment of facilities, or costly litigation. This is all indicative of the foresight and direction provided by the BOD.

In conclusion, this report was provided to give a brief overview of the District and its activities in FY 2015. This, in addition to the 2015 audited financial statements, should provide the reader a general outline of the District and its operations.

If there are any questions regarding this information, please feel free to contact the District as provided on the front page of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Allan Soetaert". The signature is fluid and cursive, with the first name "Allan" written in a larger, more prominent script than the last name "Soetaert".

Allan Soetaert, Manager
Water District No. 7, Johnson County, Kansas

RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

	2015	Not adjusted for GASB 68 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,140,582	\$ 4,111,692
Accounts receivable	193,209	191,474
Interest receivable	2,064	2,064
Inventories	23,281	15,000
Note receivable	900	900
Prepaid expenses	73,603	69,542
Total current assets	4,433,639	4,390,672
NONCURRENT ASSETS:		
Restricted assets,		
Cash and cash equivalents	411,835	386,996
Other assets:		
Investment in capital leases	450,287	475,823
Note receivable	5,400	6,300
Total other assets	867,522	869,119
Capital assets:		
Land	103,773	103,773
Buildings and improvements	889,807	869,317
Water system	17,623,880	17,139,252
Operating equipment	498,635	377,595
Construction in progress	487,425	-
Accumulated depreciation	(7,005,323)	(6,632,438)
	12,598,097	11,957,499
TOTAL ASSETS	17,899,258	17,217,290
DEFERRED OUTFLOWS OF RESOURCES		
Pension	779	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 17,900,037	\$ 17,217,290
LIABILITIES		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 331,800	\$ 299,247
Accounts payable	148,528	87,730
Accrued expenses	44,971	68,546
Line extension deposits	-	36,215
Net income (loss) before contributions	525,299	491,738
NONCURRENT LIABILITIES:		
Net pension liability	244,397	-
Bonds and notes payable, less current maturities	1,813,220	1,710,000
	2,057,617	1,710,000
TOTAL LIABILITIES	2,582,916	2,201,738
DEFERRED INFLOWS OF RESOURCES		
Pension	26,951	-
Developer fees	31,531	-
TOTAL DEFERRED INFLOWS OF RESOURCES	58,482	-
NET POSITION		
Invested in capital assets, net of related debt	10,903,364	10,424,075
Restricted for debt service	411,835	386,996
Restricted for other purposes	-	36,215
Unrestricted	3,943,440	4,168,286
TOTAL NET POSITION	15,258,639	15,015,552
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	\$ 17,900,037	\$ 17,217,290

See accompanying notes.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>Not adjusted for GASB 68 2014</u>
OPERATING REVENUES:		
Water sales	\$ 1,575,159	\$ 1,637,726
Delinquency charges	32,800	40,599
Other charges	<u>6,412</u>	<u>14,272</u>
	<u>1,614,371</u>	<u>1,692,597</u>
OPERATING EXPENSES:		
Source of supply:		
Water purchases	444,846	451,764
Depreciation and amortization	516,950	511,573
Utilities	16,302	7,703
Repairs	37,193	50,801
Supplies	7,473	5,109
Meter reading	6,036	6,170
Water protection fee	11,368	10,348
Plant management fees	7,447	6,847
Salaries and wages	340,885	305,723
Vehicle	16,049	20,305
Insurance	73,144	75,279
Payroll taxes and benefits	108,168	73,929
Office	43,711	48,285
Professional fees	72,867	33,289
Engineering	14,734	7,837
Bad debts	-	-
Miscellaneous	<u>37,937</u>	<u>33,650</u>
	<u>1,755,110</u>	<u>1,648,612</u>
Net operating income (loss)	<u>(140,739)</u>	<u>43,985</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest income	6,979	8,032
Developer fees	60,945	-
Miscellaneous income	29,300	9,337
Sale of customers	-	187,700
Loss on disposal of capital assets	-	-
Interest expense	<u>(45,590)</u>	<u>(47,368)</u>
	<u>51,634</u>	<u>157,701</u>
Net income (loss) before contributions	(89,105)	201,686
CAPITAL CONTRIBUTIONS	<u>568,410</u>	<u>664,696</u>
Net income	479,305	866,382
NET POSITION:		
Beginning of year	<u>14,779,334</u>	<u>14,149,170</u>
End of year	<u>\$ 15,258,639</u>	<u>\$ 15,015,552</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	Not restated for GASB 68 <u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 1,671,118	\$ 1,691,869
Payments to suppliers	(732,472)	(725,638)
Payments to employees	(471,157)	(365,342)
Note issued, net of repayments	-	(7,200)
Other receipts (payments)	<u>30,200</u>	<u>9,346</u>
Net cash provided by operating activities	<u>497,689</u>	<u>603,035</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions received	336,284	383,861
Developer revenue	24,730	-
Proceeds from capital debt	460,631	-
Proceeds from sale of capital assets	7,630	-
Sale of customers	-	187,700
Acquisition and construction of assets	(907,516)	(339,670)
Principal paid on capital debt and leases	(324,858)	(305,338)
Interest paid on capital debt and leases	<u>(47,840)</u>	<u>(49,576)</u>
Net cash used by capital and related financing activities	<u>(450,939)</u>	<u>(123,023)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,		
Investment income	<u>6,979</u>	<u>8,032</u>
Net cash provided by investing activities	<u>6,979</u>	<u>8,032</u>
Net increase (decrease) in cash and cash equivalents	53,729	488,044
Cash and cash equivalents, Beginning of the year	<u>4,498,688</u>	<u>4,010,644</u>
Cash and cash equivalents, End of the year	<u>\$ 4,552,417</u>	<u>\$ 4,498,688</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

**STATEMENT OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>Not restated for GASB 68 2014</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ <u>(140,739)</u>	\$ <u>43,985</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	516,950	511,573
Miscellaneous nonoperating income (expense)	75,944	9,337
Receivables, net	(1,735)	(719)
Inventories	(8,281)	-
Prepaid items	(4,061)	(2,017)
Notes receivable, net	900	(7,200)
Accounts payable and accrued liabilities	37,223	48,076
Deferred revenue	57,703	-
Line extension deposits	<u>(36,215)</u>	<u>-</u>
Total adjustments	<u>638,428</u>	<u>559,050</u>
Net cash provided by operating activities	\$ <u>497,689</u>	\$ <u>603,035</u>
Noncash capital financing activities, Assets contributed by developers	\$ <u>232,126</u>	\$ <u>280,265</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization: Rural Water District No. 7, Johnson County, Kansas (the District), is incorporated as a public corporation in accordance with Kansas statutes. The District provides water service primarily to residents of southern Johnson and northern Miami counties. The District provided service to 2,250 and 2,226 customers at December 31, 2015 and 2014, respectively. Credit is extended to these customers in the ordinary course of business.

The District is considered a governmental unit for financial reporting purposes. The District does not have any component units as defined by the criteria set forth in generally accepted accounting principles.

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The District records all of its activity in one fund, the Proprietary Fund. Proprietary funds are used to account for operations that are financed and conducted in a manner similar to private business enterprises where the intent is that costs be recovered through user charges.

Accrual Accounting: The financial statements of the District are prepared using the accrual method of accounting. Accordingly, income is recorded as earned and expenses are charged as incurred, regardless of the timing of payments.

Accounts Receivable: The District uses the allowance method to compute bad debt expense. At December 31, 2015 and 2014, the District had a \$5,500 and \$5,500, respectively, allowance for uncollectible accounts.

Inventories: Inventories of materials and supplies are valued at the lower of cost, determined on the first-in, first-out basis, or market.

Capital Assets: Capital assets with an initial, individual cost of \$500 or more are reported at historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided using the straight-line method over estimated useful lives as follows:

Rural water system	20 - 40 years
Buildings and improvements	15 - 40 years
Operating equipment	5 - 10 years

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Restricted Cash: Certain monies are restricted for specific purposes by bond covenants and are unavailable for general operations. The Board has invested the District's money into bank accounts and certificates of deposit.

Bond Discounts and Issuance Costs: Bond discounts and issuance costs are expensed as incurred.

Fund Equity - Government-Wide Statements: Equity is classified as net position and displayed in three components:

1. Net investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets: Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets: All other net assets that do not meet the definition of "restricted."

It is the Board's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: A statement of cash flows has been presented in accordance with Governmental Accounting Standards Board Statement 9 for the Board as it operates predominantly as a proprietary fund. For purposes of the statement of cash flows, demand deposits, and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, are considered to be cash equivalents.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Compensated Absences: The District implemented a new employee policy effective January 1, 2009. The policy allows full-time employees to accumulate one and a half times the amount of their annual vacation accrual. Pay cannot be received in lieu of unused vacation days. Upon resignation or termination, an employee will be compensated for any accrued but unused vacation leave. Sick leave and personal leave accrues at eight days and three days per year respectively. Unused sick leave and personal leave cannot be carried over to the next year and is not paid upon resignation or termination.

Adoption of FASB Pronouncements: The accounting and reporting policies of the Board conform to generally accepted accounting principles applicable to local governments. With regard to FASB pronouncements issued after November 30, 1989, for its proprietary fund activities, the Board has elected not to adopt any of those pronouncements.

Operating Revenues and Expenses: Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for the deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an expense until then. The District has one item that which qualifies for reporting in this category, deferrals of pension expense that result from the implementation of GASB Statement 68.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Outflows/Inflows of Resources (Continued):

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items which qualify for reporting in this category. Accordingly, deferrals of income related to pension net position acquisition and developer advances are reported in this category on the statement of net position. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

Operating Revenues and Expenses: Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and/or services in connection with proprietary funds principal ongoing operations. The principal operating revenue of the District's water proprietary fund is charges to customers for sales and services. Operating expenses are those that are incurred to provide those goods or services. Operating expenses include the costs of sales and services, administrative expense, and depreciation on capital assets. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Revenue Recognition: Customer meters are read and bills are rendered on a cycle basis. Revenues are recorded when earned in accordance with the customary practices of the industry.

Income Tax Status: The District is a political corporation of the state of Kansas and, as such, is exempt from paying income tax.

2. COLLATERALIZATION:

At December 31, 2015 and 2014, cash balances were comprised of demand deposits and certificates of deposit. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposit at all times.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2015 and 2014, none of the District's bank balances of \$4,586,743 and \$4,033,513, respectively, were exposed to custodial credit risk.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

3. RESTRICTED CASH:

Restricted cash at December 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Bond Principal and Interest	\$ 160,333	\$ 135,494
Bond Reserve	<u>251,502</u>	<u>251,502</u>
	<u>\$ 411,835</u>	<u>\$ 386,996</u>

4. CAPITAL ASSETS:

A summary of changes in capital assets for 2015 follows:

	<u>Beginning Balance 12/31/2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance 12/31/2015</u>
Capital assets not being depreciated:				
Land and improvements	\$ 103,773	\$ -	\$ -	\$ 103,773
Construction in progress	<u>-</u>	<u>487,425</u>	<u>-</u>	<u>487,425</u>
Total capital assets not being depreciated	<u>103,773</u>	<u>487,425</u>	<u>-</u>	<u>591,198</u>
Capital assets being depreciated:				
Buildings	145,372	-	-	145,372
Improvements	723,945	20,490	-	744,435
Operating equipment	377,595	147,099	26,159	498,535
Water system	<u>17,139,252</u>	<u>484,628</u>	<u>-</u>	<u>17,623,880</u>
Total capital assets being depreciated	<u>18,386,164</u>	<u>652,217</u>	<u>26,159</u>	<u>19,012,222</u>
Less accumulated depreciation:				
Buildings	93,873	3,572	-	97,445
Improvements	174,530	21,517	-	196,047
Operating equipment	252,005	39,642	18,529	273,118
Water system	<u>6,012,030</u>	<u>426,683</u>	<u>-</u>	<u>6,438,713</u>
Total accumulated depreciation	<u>6,532,438</u>	<u>491,414</u>	<u>18,529</u>	<u>7,005,323</u>
Total capital assets being depreciated, net	<u>11,853,726</u>	<u>160,803</u>	<u>7,630</u>	<u>12,006,899</u>
Capital assets, net	<u>\$ 11,957,499</u>	<u>\$ 160,803</u>	<u>\$ 7,630</u>	<u>\$ 12,598,097</u>

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT:

Long-term debt at December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Kansas Rural Water Finance Authority, Revenue Refunding Bonds, Series D 2012 interest at 2% to 2.75%, due in semi-annual installments varying from year to year until maturity on February 1, 2024	\$ 1,710,000	\$ 1,980,000
Central Bank of the Midwest, loan, interest of 2.65%, due in monthly installments of 5970.24 until maturity on January 23, 2025	435,020	-
Gardner National Bank, USDA Rural Development guaranteed loan, interest of 6.14%, due in monthly installments until maturity on October 15, 2015	<u>-</u>	<u>29,247</u>
	2,145,020	2,009,247
Less: current maturities	<u>331,800</u>	<u>299,247</u>
	<u>\$ 1,813,220</u>	<u>\$ 1,710,000</u>

Changes in long-term debt of the District for the year ended December 31, 2015, consisted of the following:

	Balance December 31, 2014	Additions	Retirements	Balance December 31, 2015	Amounts Due within One Year
Note Payable	\$ -	\$ 460,631	\$ 25,611	\$ 435,020	\$ 56,800
Revenue Bonds	<u>2,009,247</u>	<u>-</u>	<u>299,247</u>	<u>1,710,000</u>	<u>275,000</u>
	<u>2,009,247</u>	<u>460,631</u>	<u>324,858</u>	<u>2,145,020</u>	<u>331,800</u>

Provisions of the bond indentures make the following requirements for the District to assure profitable operation and timely repayment of debt.

Establishment of rates adequate to insure "net revenues" (as defined by the indenture) of the District, are at least equal to 125% of the total principal and interest payments due each year.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued):

The District is required to establish an operation and maintenance account of which the funds are to pay for reasonable and proper current expenses of the system for a period of 30 days. The District is also required to establish and adequately fund principal and interest reserve accounts.

At December 31, 2015 and 2014, the District was in compliance with the provisions of the loan indentures.

Aggregate annual principal and interest payments are:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Revenue Bonds</u>
2016	\$ 275,000	\$ 35,585	\$ 310,585
2017	280,000	30,035	310,035
2018	285,000	24,575	309,575
2019	290,000	19,255	309,255
2020	190,000	13,585	203,585
2021-2024	<u>390,000</u>	<u>21,795</u>	<u>411,795</u>
	<u>\$ 1,710,000</u>	<u>\$ 144,830</u>	<u>\$ 1,854,830</u>

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Note Payable</u>
2016	\$ 56,800	\$ 14,842	\$ 71,642
2017	58,388	13,255	71,643
2018	59,976	11,667	71,643
2019	61,608	10,035	71,643
2020	63,259	8,384	71,643
2021-2024	<u>274,358</u>	<u>15,770</u>	<u>290,128</u>
	<u>\$ 574,389</u>	<u>\$ 73,953</u>	<u>\$ 648,342</u>

The District still has \$139,369 left to draw down on the note payable. The District expects to draw down the balance in full. The note payable amortization schedule above reflects the total amount of the loan which is \$600,000.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

6. CAPITAL LEASE OBLIGATION:

In 1987, the District entered into a water supply contract with Rural Water District No. 2, Miami County, Kansas, to purchase water from the Hillsdale Lake Water Treatment Facility. In addition to the variable and fixed operating costs of the water, the District is also required to pay 20% of the debt retirement funds required for initial construction of the facility and 10% of the expansion project. The contract, amended in 1998, is valid as long as the Hillsdale Lake Water Treatment Facility is in operation.

The contract provision requiring payment of 20% of the construction costs is classified as a capital lease. Although the contract does not transfer ownership of the facility to the District, the lease term and the minimum lease payments are of such magnitude as to classify the contract as a capital lease.

	<u>2015</u>	<u>2014</u>
Water Treatment Facility	\$ 1,021,487	\$ 1,021,487
Less: Accumulated amortization	<u>571,200</u>	<u>545,664</u>
	<u>\$ 450,287</u>	<u>\$ 475,823</u>

The District uses the same method of amortization as it uses for depreciation of fixed assets, straight-line amortization over the 40 year term.

In April 1998, Rural Water District No. 2, Miami County, Kansas, issued bonds in order to refinance its existing bonds for the water treatment facility. Rural Water District No. 2, Miami County, Kansas, also secured additional funds for which the District did not receive any benefit. Accordingly, the District is required to pay 10.94%, which is their proportional share of the initial 20% construction costs on the Hillsdale Lake Water Treatment Facility.

The capital lease was paid off as scheduled in 2008.

7. RETIREMENT PLAN:

General Information about the Pension Plan

Plan description: The District participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERs issues a publically available financial report that includes financial statements and required supplementary information. KPERs' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERs website at www.kpers.org or by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

7. RETIREMENT PLAN (CONTINUED):

Contributions: K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for Death and Disability Program) and the statutory contribution rate was 9.48% for the fiscal year ended December 31, 2015. Contributions to the pension plan from the District were \$28,464 and \$26,426 for the years ended December 31, 2015 and 2014, respectively.

Net Pension Liability: At December 31, 2105, the District's proportionate share of the collective net pension liability reported by KPERS was \$244,397. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. The District's proportion of the net pension liability was based on the ratio of the District's contribution to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS.

Actuarial assumptions: The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increase	4% to 12%
Investment rate of return	8%

Mortality rates were based on the RP-2000 Healthy Annuitant table first adjusted by an age setback or set forwards. Rates were further adjusted to fit actual experience +2 males -1 females.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

7. RETIREMENT PLAN (CONTINUED):

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	47%	6.3%
Fixed	13%	0.80%
Yield Driven	8%	4.2%
Real Return	11%	1.7%
Real Estate	11%	5.4%
Alternatives	8%	9.4%
Short-term Investments	2%	-0.5%

Discount rate: The discount rate used to measure the total pension liability is 8%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower 7% or one percentage point higher 9% than the current rate.

	<u>1% Decrease 7%</u>	<u>Current Single Discount Rate Assumption 8%</u>	<u>1% Increase 9%</u>
Net Position Liability (NPL)	<u>\$ 346,934</u>	<u>\$ 244,934</u>	<u>\$ 157,465</u>

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

7. RETIREMENT PLAN (CONTINUED):

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the employer recognized pension expense of \$14,826. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ (6,918)
Change in proportion	779	(7,104)
Differences in assumptions	-	(3,416)
Excess (deficit) investment returns	-	(9,513)
Total	<u>\$ 779</u>	<u>\$ (26,951)</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>	<u>Net Deferred Inflows of Resources</u>
2016	\$ (8,687)
2017	(8,687)
2018	(8,687)
2019	1,785
2020	(1,896)
Thereafter	-
	<u>\$ (26,172)</u>

Payable to the Pension Plan

At December 31, 2015, the District reported a payable of \$244,934 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employer and publicly available on the website at www.kpers.org or can be obtained as described above.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

8. SUMMARY OF INSURANCE COVERAGE:

The following is a schedule of the District's insurance coverage at December 31, 2015:

<u>Insurer/Type of Coverage</u>	<u>Policy Period</u>	<u>Coverage</u>	<u>Premium</u>
Employers Mutual			
Real and personal property	2/1/15-2/1/16	\$ 2,246,500	\$ 5,689
General liability	2/1/15-2/1/16	\$ 1,000,000	\$ 4,720
\$1,000,000 per occurrence			
\$2,000,000 aggregate			
Inland marine	2/1/15-2/1/16	\$ 152,046	\$ 1,089
Employee dishonesty	2/1/15-2/1/16	\$ 250,000	\$ 286
Employers Mutual			
Business automobile liability	2/1/15-2/1/16	\$ 1,000,000	\$ 4,376
Directors and officers liability	2/1/15-2/1/16	\$ 1,000,000	\$ 1,799
EMCASCO Insurance Co.			
Workers' compensation	2/1/15-2/1/16		\$ 6,863
Bodily injury by accident-ea. accident		\$ 500,000	
Bodily injury by disease-ea.		\$ 500,000	
Bodily injury by disease-policy limit		\$ 500,000	
Employers Mutual			
Umbrella policy	2/1/15-2/1/16	\$ 1,000,000	\$ 3,016
Data renewal	2/1/15-2/1/16	\$ -	\$ 69
Old Republic Insurance			
Right-of-way bond	7/20/15-7/20/16	\$ 50,000	\$ 250

9. RISK MANAGEMENT:

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District joined together with other entities in the State to participate in Employers Mutual Insurance Corp. (EMC), a public entity risk pool currently operating as a common risk management and insurance program for the participating members.

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

9. RISK MANAGEMENT (CONTINUED):

The Water District pays an annual premium to EMC for its insurance coverage. The agreement to participate provides that EMC will be self-sustaining through member premiums. Additional premiums may be due if total claims for the pool are different than what has been anticipated by EMC management.

10. TAX-EXEMPT STATUS:

The District's management believes it has operated as a tax-exempt municipal corporation within the meaning of all applicable federal and state laws. Therefore, no provision has been made in the financial statements for income taxes.

11. COMPLIANCE WITH KANSAS STATUTES:

Management is aware of no statutory violations for the period covered by the audit.

12. CONTRIBUTED CAPITAL:

A summary of contributed capital from inception is as follows:

	<u>2015</u>	<u>2014</u>
GOVERNMENT CONTRIBUTIONS:		
Balance, Beginning of year	\$ 3,359,971	\$ 3,359,971
Construction contributions	<u>27,431</u>	<u>-</u>
Balance, End of year	<u>3,387,402</u>	<u>3,359,971</u>
MEMBER CONTRIBUTIONS:		
Balance, Beginning of year	7,291,962	6,973,962
Benefit units sold	<u>275,442</u>	<u>318,000</u>
Balance, End of year	<u>7,567,404</u>	<u>7,291,962</u>
DEVELOPER CONTRIBUTIONS:		
Balance, Beginning of year	2,970,668	2,624,542
Contributions for capital improvements	<u>265,537</u>	<u>346,126</u>
Balance, End of year	<u>3,236,205</u>	<u>2,970,668</u>
 Total contributed capital	 <u>\$ 14,191,011</u>	 <u>\$ 13,622,601</u>

**RURAL WATER DISTRICT NO. 7
JOHNSON COUNTY, KANSAS**

NOTES TO FINANCIAL STATEMENTS

13. NOTE RECEIVABLE

During 2014 the District sold a plot of land. The buyer issued a promissory note to the District in the amount of \$7,500. There is no interest payable to the District and the District is to receive \$75 per month for the next 8 years. During 2015 the District received payments in the amount of \$900. The balance at December 31, 2015, is \$6,300.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 28, 2016, which is the date the financial statements were evaluated to be issued.

15. CONSTRUCTION COMMITMENTS

At December 31, 2015, the District has construction commitments of \$116,230.

16. PRIOR PERIOD ADJUSTMENT:

Change in accounting principle:

An adjustment was necessary to restate beginning net position for the KPERS net pension liability. The adjustment is due to the District complying with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension an Amendment of GAB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the measurement Date – an Amendment of GASB Statement No. 68*. The following table represents the change in net position for governmental activities and business-type activities:

Beginning Net Position	\$ 15,015,552
Net pension liability	<u>(236,218)</u>
Adjusted Net Position beginning	<u>\$ 14,779,334</u>

17. FINANCIAL STATEMENT PRESENTATION:

The District has elected to present 2014 operating results for comparison purposes. However, the 2014 financial information is not comparable to 2015 because all information to restate 2014 balances for GASB 68 was not available. Management intends to present comparable information in future financial statements.

**RURAL WATER DISTRICT NO. 7 JOHNSON COUNTY, KANSAS
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Employer's Proportionate Share of the Net Pension Liability and Related Ratios
2015**

<i>Fiscal year ending June 30,</i>	<u>2015</u>
Employer Net Pension Liability	\$ 244,397
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	111.63%
Covered Employee Payroll	\$346,362
Employer's Net Pension Liability as a percentage of covered employee payroll	70.56%

Notes to schedule:

Only the 2015 year is being shown, as other years come available they will be included until 10 years of data is shown.

**RURAL WATER DISTRICT NO. 7 JOHNSON COUNTY, KANSAS
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS
2015**

	<u>2015</u>
Actuarially determined contribution	\$ 28,464
Contributions in relation to the actuarially determined contribution	<u>28,464</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
 Covered-employee payroll	 \$ 346,362
Contributions as a percentage of covered-employee payroll	8.22%

Notes to schedule:

Only the 2015 year is being shown, as other years come available they will be included until 10 years of data is shown.